

**Fenton Centre Property**

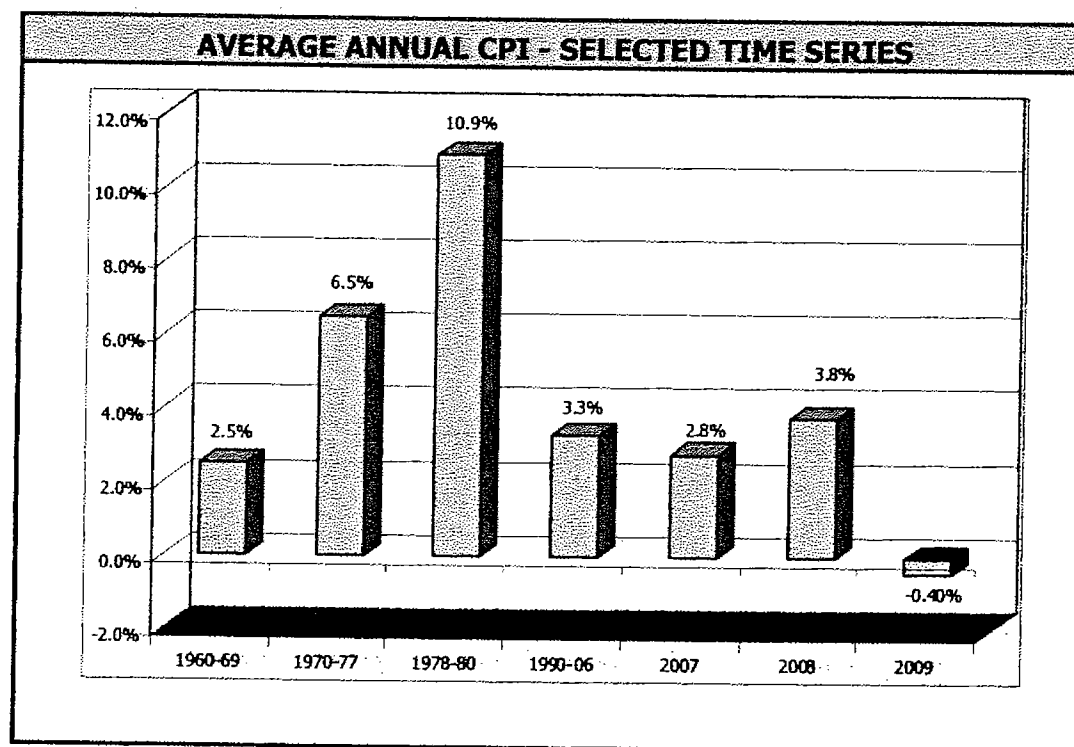
**Analysis of Data and Conclusions**

Subject's largest tenant (which has its name one of the building's exteriors) is IBM. IBM leases 77,501 square feet comprised of 2,068 square feet on the first floor and all of floor 3-5 of subject's 1503 LBJ building. According to CoStar, this entire space is available for sublease through January 31, 2013 (and January 31, 2015 for 26,573 square feet). It is considered unlikely that this entire space would be subleased given its large size, limited remaining term and varying expiration dates. Therefore, for purposes of this analysis, **we assume that IBM (which is currently occupying their space) does not renew its lease.**

***Inflation***

Rental rates, and to a greater degree, expenses, are influenced by trends in inflation. An analysis of long-term trends reveals general downward movement in the nation's inflation rate since the 1970s. For the period 1990-2000, the Consumer Price Index (CPI) increased at an annual rate of 3.0%. Inflation has moderated during recent years from the double-digit pace established during the early 1980s, due in large part to consistent increases in productivity and governmental monetary policy.

A history of trends in the national CPI is illustrated in the table below.



<b>INCREASE IN U.S. CONSUMER PRICE INDEX 1920-2009</b>		
<b>Period</b>	<b>No. of Years</b>	<b>Average Annual Rate</b>
1920-1990	70	2.7%
1930-1990	60	3.5%
1940-1990	50	4.6%
1950-1990	40	4.3%
1960-1990	30	5.1%
1970-1990	20	6.3%
1980-1990	10	4.8%
1990-2000	10	2.8%
2000-2009	9	2.7%
<b>Source:</b> U.S. Department of Labor, Bureau of Labor Statistics. Edited by Crosson Dannis, Inc.		

Changes in the CPI for the United States and Dallas/Fort Worth MSA are shown in the following chart.

<b>Annual % Change in CPI</b>		
<b>Year</b>	<b>United States</b>	<b>D/FW MSA</b>
1990	5.4%	4.7%
1991	4.2%	4.6%
1992	3.0%	2.4%
1993	3.0%	2.5%
1994	2.6%	2.8%
1995	2.8%	2.6%
1996	3.0%	2.7%
1997	2.3%	1.7%
1998	1.6%	1.5%
1999	2.2%	2.9%
2000	3.4%	4.2%
2001	2.8%	3.5%
2002	1.6%	1.3%
2003	2.3%	2.0%
2004	2.7%	1.4%
2005	3.4%	3.4%
2006	3.2%	2.9%
2007	2.8%	1.6%
2008	3.8%	4.4%
2009	-0.4%	-0.6%
<b>20-Year Avg.</b>	<b>2.8%</b>	<b>2.6%</b>
<b>Last 5 Years Avg.</b>	<b>2.6%</b>	<b>2.3%</b>
<b>Source:</b> Bureau of Labor Statistics		

It is our expectation that the local CPI will closely resemble changes in the national CPI, at least for the rest of this decade.

***Rent Escalation***

Trends in supply and demand have the greatest effect on changes in market rental rates. In periods where demand exceeds supply, rents tend to increase at a rate faster than that of inflation. When supply exceeds demand, rents may grow at a much slower rate or experience real declines.

Thus, in consideration of the likely effects of inflation, and noting the position of current rental rates in the context of the market cycle, as well as the large amount of office space in the submarket under construction, it is forecast that the average market rent for the subject will increase at an annual compounded rate in the following manner:

Years 1-4	0%
Years 5-7	10%
Years 8-9	8%
Years 10-11	3%
<b>Annual Compounded Increase</b>	<b>4.7%</b>

The most recent "Korpacz Real Estate Investor" report shows investor expectations of rental rate increases of 0% annually for Dallas area office properties. We estimate the subject to have no rent increase through 2013; or, at least until subject approaches stabilization.

***Expense Escalation***

Operating expenses for the subject property are expected to increase at an annual compounded rate as outlined in the following table:

Year 1	Base Year
Years 2-10	3.00%
<b>Annual Compounded Increase</b>	<b>2.70%</b>

Given the low inflationary environment in today's market, the use of a **3%/year** annual increase to all expenses appears both well supported and market driven.

The most recent "Korpacz Real Estate Investor" report indicates investor expectations for expense increases in Dallas office buildings average 3.0%. The subject's forecast expense increase of 2.7% annually corresponds to investor expectations.

***Occupancy/Absorption***

The subject property is 53% leased. As previously discussed, an appropriate stabilized vacancy rate for the subject is estimated at 18%. Therefore, subject will need to lease approximately 210,000 square feet in order to attain stabilization.

The subject submarket absorbed 216,446 square feet during the first three quarters of 2010 (38% of the entire Dallas area's absorption). Further in 2009, the submarket absorbed nearly 100,000 square feet, despite the Dallas area, as a whole, giving back almost 1,000,000 square feet of space.

The subject's lease comparables currently have a combined total of approximately 480,000 square feet of vacant space that the subject competes with. However, our selection of market rent (\$18.00/SF), free rent of six months during the lease-up period only and \$20.00/SF tenant improvement allowance makes the subject space very competitive.

Given this, we project the subject property will attain stabilization **four years** hence.

### ***Holding Period***

A seven to 12-year holding period is typical of that used by investors in the marketplace today for properties similar to the subject. A ten-year holding period appropriately considers the timing of anticipated primary lease expirations in subject.

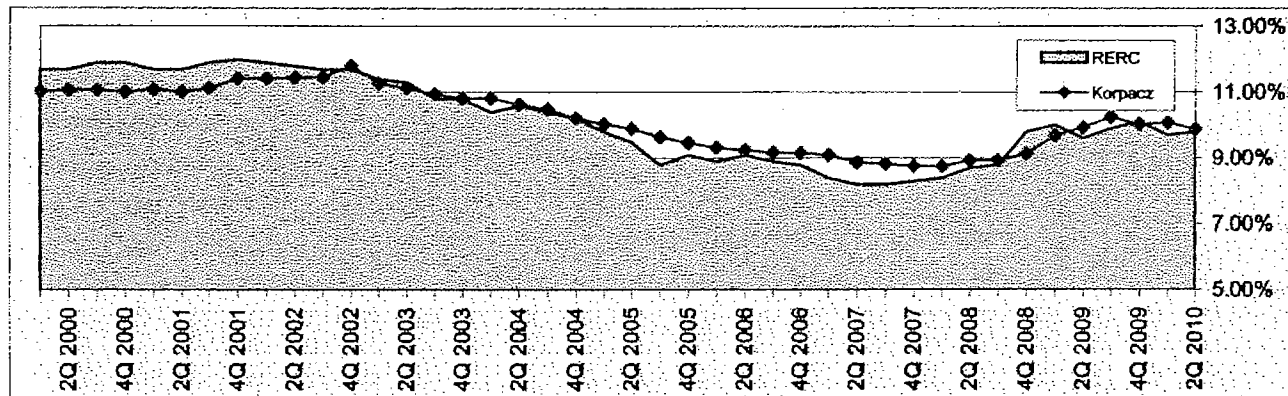
### ***Investment Returns***

In order to convert the forecasted income stream into an estimate of value, the cash flow for each year is discounted to the present utilizing a selected discount rate, which is synonymous with the internal rate of return (IRR).

Yield rates are partially a function of perceived risks. Real estate must compete with other investment instruments in the capital markets. Because real estate is immobile and illiquid, it is generally regarded with a greater degree of risk than investments that carry less risk or have a guaranteed yield.

Yields on commercial real estate are difficult to quantify, since real estate is traded less frequently than other investment classes. One method of determining appropriate discount rates for commercial real estate is analyzing survey results of investors active in the marketplace. This method is desirable because it reflects investors' future expectations and requirements, not merely past performance. One of the more comprehensive surveys of this nature is performed by PricewaterhouseCoopers LLP in its Korpacz Real Estate Investor Survey. In its most recent study of major real estate investments (third quarter 2010), pretax IRRs for the category of national suburban office buildings averaged 9.45% for a range of 7.00-13.00%. For the Dallas office market specifically, the Korpacz study indicates an IRR for all office buildings of 8.00-12.0%; with an average of 9.51%. Another quoted survey is that of RERC of Chicago which has performed a similar investor survey since the 1980s. Its data for third quarter 2010 for the national suburban office category show a slightly higher IRR of 9.6% (with a range of 8.0% to 12.0%) for Dallas/Fort Worth suburban office product (as of second quarter 2010), it was 10.4%.

Both studies are trended on the following graph.



In comparison to the investment grade properties that are the basis of the Korpacz study, the subject property presents a higher degree of risk as a long-term investment.

Considering these factors, a discount rate of **10.50%** is selected as appropriate for the subject.

Based on survey data and the individual characteristics of the property, it is our opinion a ten-year holding period is appropriate for use in our DCF analysis. A terminal OAR of **8.50%** is applied to the **11th** year's NOI as a means of estimating a gross sales price. This is the same as the entrance OAR and reflects the subject's location, age, condition and expectation that overall market conditions will have improved, substantially, ten years hence.

Based upon local real estate practices in this market, for this type (and size) property, we will deduct **2.0% in sales expenses** to arrive at a final net reversionary value.

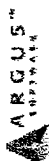
The functional relationship between the going-in (entrance) OAR and the going-out (exit, terminal or reversionary) OAR has typically been based upon general rule-of-thumb of simply adding - or "loading" the entrance OAR by 50 to 200 basis points to estimate the exit OAR. Participants in both the Korpacz and RERC surveys typically use 30 to 40 basis points in excess of the entrance capitalization rate.

Contemporary research supports the rational selection of an exit OAR, rather than simply 'loading' the initial OAR by some basis. Specifically, Wang/Grissom/Chan set forth an analytical model to assist the investor, as well as the appraiser/analyst, in the proper selection of an exit OAR (The Journal of Real Estate Research, Summer 1990, Vol. 5, No. 2, Pgs. 231-245). Their model simply compares the forecast assumptions used during the projected holding period versus market conditions forecasted to occur after this holding period. Their model is summarized in the chart on the following page.

Scenario	Income Growth Rate	Required Rate of Return	Property Appreciation Rate	Relationship Between Two Cap Rates
One	Same	Same	Same	Same
Two	G	Same	Same	$I > O$
Three	Same	G	Same	$O > I$
Four	Same	Same	G	$I > O$
<b>Notes:</b> G: If the rate after the holding period is greater than the rate during the holding period. I: Going-in capitalization rate O: Going-out capitalization rate				

In this appraisal, the subject property most closely fits those market conditions described by Scenario One. Market conditions are forecasted to be better in balance and the immediate area. These improving conditions offset subject's older age.

With each of the required elements now identified, we are able to analyze the results of our DCF analysis, which is presented on the following page. The market value of the subject property, **as is**, via Yield Capitalization, as of November 17, 2010, is estimated at **\$43,370,000 (Rd.)**.



**Fenton Centre**  
**1701-1709 LBJ Freeway**  
**Farmers Branch, TX 75234**

Software: ARGUS Ver. 14.0.2  
File: 10102019-off  
Property Type: Office/Industrial  
Portfolio:  
Date: 11/23/10  
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**Schedule Of Prospective Cash Flow**  
**In Inflated Dollars for the Fiscal Year Beginning 11/1/2010**

For the Years Ending	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11
Oct-2011	Oct-2012	Oct-2013	Oct-2014	Oct-2015	Oct-2016	Oct-2017	Oct-2018	Oct-2019	Oct-2020	Oct-2021	Oct-2021
Potential Gross Revenue											
Base Rental Revenue	\$13,202,930	\$13,147,402	\$12,889,033	\$12,752,053	\$13,042,968	\$13,385,398	\$14,193,369	\$15,170,436	\$16,514,759	\$17,188,521	\$18,126,430
Absorption & Turnover Vacancy	(5,827,380)	(4,670,909)	(4,423,202)	(2,818,519)	(2,479,607)	(2,180,132)	(1,551,522)	(1,458,246)	(309,623)	(424,276)	(582,186)
Base Rent Abatements	(276,184)	(473,458)	(473,458)	(473,458)	(197,274)						
Scheduled Base Rental Revenue	7,099,366	8,003,035	7,992,373	9,460,076	10,366,087	11,205,266	12,641,847	13,712,190	16,205,130	16,784,245	17,544,244
Expense Reimbursement Revenue	872,159	950,097	929,161	1,101,632	1,204,127	1,342,530	1,498,545	1,585,343	1,804,645	2,028,706	2,183,400
Parking Income	10,000	10,300	10,609	10,927	11,255	11,593	11,941	12,299	12,668	13,048	13,439
Miscellaneous Income	100,000	103,000	106,090	109,273	112,551	115,927	119,405	122,987	126,677	130,477	134,392
Overtime HVAC	100,000	103,000	106,090	109,273	112,551	115,927	119,405	122,987	126,677	130,477	134,392
Total Potential Gross Revenue	8,181,525	9,168,432	9,144,323	10,791,181	11,806,571	12,791,243	14,391,143	15,555,806	18,275,797	19,066,953	20,009,867
General Vacancy	(163,631)	(183,389)	(182,886)	(215,824)	(236,131)	(374,284)	(1,235,557)	(1,531,265)	(2,880,741)	(2,923,684)	(2,982,867)
Collection Loss						(255,925)	(287,823)	(311,116)	(365,516)	(381,339)	(400,197)
Effective Gross Revenue	8,017,894	8,985,043	8,961,437	10,575,357	11,570,440	12,161,134	12,867,763	13,713,425	15,029,540	15,761,930	16,726,763
Operating Expenses											
Cleaning	348,229	417,946	487,663	557,380	627,095	645,908	665,285	685,244	705,801	726,975	748,784
Repairs & Maintenance	1,218,802	1,255,366	1,293,027	1,331,817	1,371,772	1,412,925	1,455,313	1,498,972	1,543,941	1,590,260	1,637,967
Utilities	1,392,916	1,550,000	1,650,000	1,850,000	2,038,061	2,099,203	2,182,179	2,227,044	2,293,856	2,362,671	2,433,551
Roads/Grounds/Security	417,875	430,411	443,323	456,623	470,322	484,431	498,964	513,933	529,351	545,232	561,589
Real Estate Taxes	1,466,329	1,510,319	1,555,628	1,602,297	1,650,366	1,699,877	1,750,874	1,803,400	1,857,502	1,913,227	1,970,824
Insurance	188,044	193,685	199,486	205,480	211,845	217,994	224,534	231,270	238,208	245,354	252,715
Administration	452,698	466,279	480,267	494,675	509,515	524,801	540,545	556,761	573,464	590,668	608,368
Management Fee	160,358	179,721	179,229	211,507	231,409	243,223	257,355	274,269	300,591	315,239	334,536
Marketing	69,646	71,735	73,887	76,104	78,387	80,739	83,161	85,656	88,225	90,872	93,598
Total Operating Expenses	5,714,897	6,075,462	6,362,520	6,785,883	7,188,572	7,409,101	7,636,210	7,876,549	8,130,939	8,380,498	8,641,752
Net Operating Income	2,302,997	2,910,581	2,598,917	3,789,474	4,381,868	4,752,033	5,229,553	5,836,876	6,898,601	7,381,432	8,085,031
Leasing & Capital Costs											
Tenant Improvements	1,805,546	1,138,588	3,023,246	1,293,715	1,568,820	1,691,380	2,013,010	3,295,595	800,048	1,143,446	1,465,529
Leasing Commissions	804,203	321,707	1,095,171	371,910	565,596	888,437	1,170,373	2,177,497	626,998	896,119	1,148,538
Reserves	69,646	71,735	73,887	76,104	78,387	80,739	83,161	85,656	88,225	90,872	93,598
Total Leasing & Capital Costs	2,679,395	1,532,030	4,192,304	1,741,729	2,212,803	2,660,556	3,266,544	5,558,748	1,515,271	2,130,437	2,707,665
Cash Flow Before Debt Service & Taxes	(376,396)	\$1,378,551	(\$1,593,387)	\$2,047,745	\$2,168,065	\$2,091,477	\$1,963,009	\$278,128	\$5,383,330	\$5,250,995	\$5,377,366

**Prospective Present Value**  
**Cash Flow Before Debt Service plus Property Resale**  
**Discounted Annually (Endpoint on Cash Flow & Resale) over a 10-Year Period**

Analysis Period	For the Year Ending	Annual Cash Flow	P.V. of Cash Flow @ 9.50%	P.V. of Cash Flow @ 10.00%	P.V. of Cash Flow @ 10.50%	P.V. of Cash Flow @ 11.00%	P.V. of Cash Flow @ 11.50%
Year 1	Oct-2011	(376,398)	(343,742)	(342,180)	(340,632)	(339,097)	(337,577)
Year 2	Oct-2012	1,378,551	1,149,726	1,139,298	1,129,012	1,118,863	1,108,851
Year 3	Oct-2013	(1,593,387)	(1,213,609)	(1,197,135)	(1,180,958)	(1,165,071)	(1,149,467)
Year 4	Oct-2014	2,047,745	1,424,359	1,398,637	1,373,494	1,348,913	1,324,879
Year 5	Oct-2015	2,169,065	1,377,850	1,346,819	1,316,622	1,287,234	1,258,631
Year 6	Oct-2016	2,091,477	1,213,300	1,180,584	1,148,892	1,118,189	1,088,438
Year 7	Oct-2017	1,963,009	1,039,977	1,007,334	975,858	945,500	916,217
Year 8	Oct-2018	278,128	134,564	129,749	125,125	120,687	116,425
Year 9	Oct-2019	5,383,330	2,378,614	2,283,058	2,191,748	2,104,477	2,021,050
Year 10	Oct-2020	5,250,995	2,118,851	2,024,486	1,934,723	1,849,319	1,768,044
Total Cash Flow		18,592,515	9,279,890	8,970,650	8,673,884	8,389,014	8,115,491
Property Resale @ 8.50% Cap		94,166,832	37,997,653	36,305,390	34,695,662	33,164,097	31,706,572
Total Property Present Value			\$47,277,543	\$45,276,040	\$43,369,546	\$41,553,111	\$39,822,063
Rounded to Thousands			\$47,278,000	\$45,276,000	\$43,370,000	\$41,553,000	\$39,822,000
Per SqFt			67.88	65.01	62.27	59.66	57.18
Percentage Value Distribution							
Assured Income			26.61%	27.46%	28.34%	29.24%	30.17%
Prospective Income			-6.98%	-7.65%	-8.34%	-9.05%	-9.79%
Prospective Property Resale			80.37%	80.19%	80.00%	79.81%	79.62%
			100.00%	100.00%	100.00%	100.00%	100.00%





**Fenton Centre**  
**1701-1709 LBJ Freeway**  
**Farmers Branch, TX 75234**

Software: ARGUS Ver. 14.0.2

File: 10102019-off

Property Type: Office/Industrial

Portfolio:

Date: 11/23/10

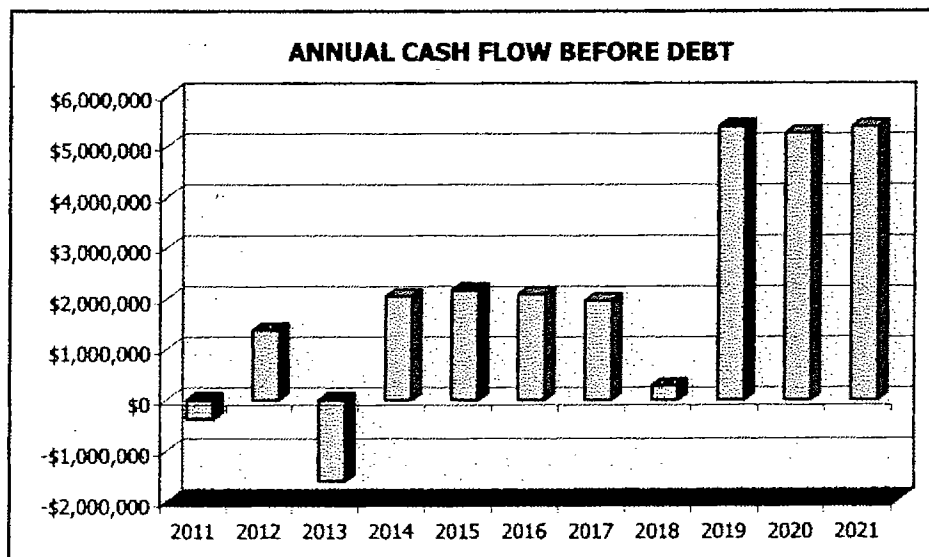
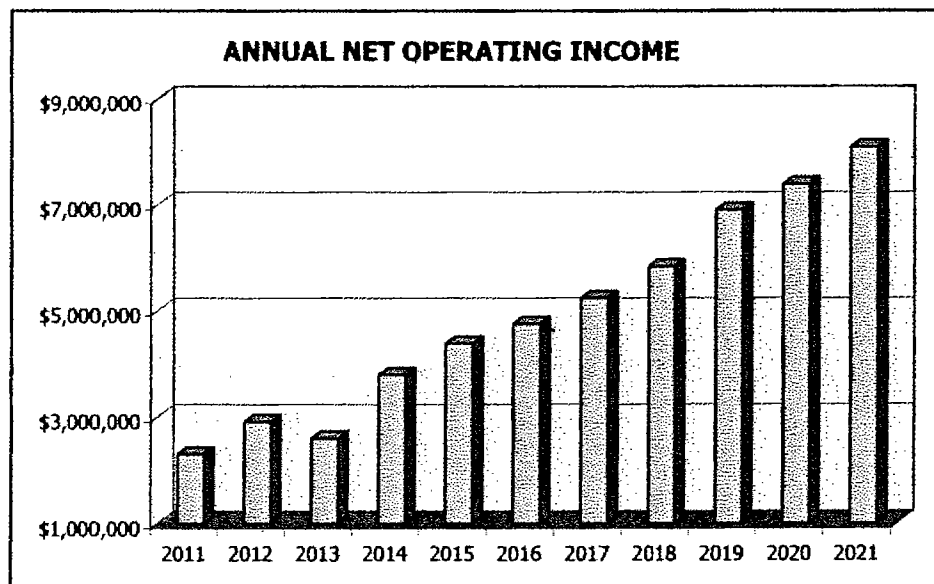
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**Resale - Cap Rate Matrix**  
**Cash Flow Before Debt Service plus Property Resale In Year 10, Oct-2020**  
**Discounted Annually (Endpoint on Cash Flow & Resale)**

For the Cap Rates	Net Proceeds From Sale	P.V. of Property @ 9.50%	P.V. of Property @ 10.00%	P.V. of Property @ 10.50%	P.V. of Property @ 11.00%	P.V. of Property @ 11.50%
8.00%	\$100,052,259	\$49,652,396	\$47,545,127	\$45,538,025	\$43,625,867	\$41,803,723
8.25%	97,020,372	48,428,987	46,376,204	44,420,930	42,558,083	40,782,868
8.50%	94,166,832	47,277,543	45,276,040	43,369,546	41,553,111	39,822,063
8.75%	91,476,351	46,191,895	44,238,743	42,378,241	40,605,565	38,916,161
9.00%	88,935,341	45,166,562	43,259,074	41,442,009	39,710,661	38,060,586



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### **Income Capitalization Approach Reconciliation – As Is**

The value indications by both direct capitalization, using an OAR, and yield capitalization, using the DCF analysis, were employed in order to develop an indication of value for the subject property via the Income Capitalization Approach. These are two of the most frequently utilized methods in appraisal practice today, with the OAR method representing the more traditional technique and the DCF analysis developed more recently. The value indications by these two methods are as follows:

Direct Capitalization	\$40,315,000
Yield Capitalization	\$43,370,000

These two methods produce a reasonable range of values. Both methods are considered reliable, but Yield Capitalization gives more consideration to subject's low current occupancy and forecasted lease-up. For this reason, this latter method is given most weight, rounding appropriately.

The market value of the leased fee interest in the subject property, as is, via the Income Capitalization Approach, as of November 17, 2010, is therefore reconciled at the rounded figure of **\$42,500,000**.

## **COST APPROACH**

The Cost Approach to value typically involves the following steps:

- 1. Estimate the value of the site as if vacant and available to be put to highest and best use as of the date of the appraisal.**
- 2. Estimate the reproduction cost new of the improvements.**
- 3. Estimate all elements of accrued depreciation including physical deterioration, functional obsolescence and external obsolescence.**
- 4. Subtract total accrued depreciation from reproduction cost new of the improvements to determine the present value of the improvements.**
- 5. Add the estimated depreciated value of all site improvements.**
- 6. Add the total present value of all improvements to the estimated site value to arrive at the value of the property.**

The cost approach is not considered appropriate for use in the appraisal of the subject because it typically is most applicable when appraising a new, or nearly new property. Subject was built in 1985 and 1988 and is heavily affected by physical depreciation and external obsolescence. Generally, this approach provides the reader with the knowledge that the estimate of market value is less than the current replacement cost new, plus land value. This is certainly the case with the subject. Therefore, the cost approach has not been included herein.

## RECONCILIATION AND FINAL VALUE OPINION – FENTON CENTER OFFICE BUILDINGS ONLY

The Sales Comparison and Income Capitalization to value are utilized in estimating the **market value** of the leased fee interest of the subject property, as is, as of November 17, 2009. A brief discussion of these approaches and their value indications follow.

<b>Sales Comparison Approach</b>	<b>\$43,240,000</b>
<b>Income Capitalization Approach</b>	<b>\$42,500,000</b>

**The Sales Comparison Approach** is based on the principle of substitution; i.e., a prudent buyer would not pay more for one property than for another that is equally desirable. This approach develops a value indication by comparing sales to the subject. The comparables are compared to subject on a qualitative basis. Only one technique, the SP/SF method, was employable in our analysis. The resultant final value estimate provided by this approach is not considered reliable given the recent volatility in the real estate market and the lack of more recent office sales. Therefore, we will not place much weight on its value indication.

**The Income Capitalization Approach** is based on the assumption that a definite relationship exists between the net income a property produces and its total value. Two methods - Direct Capitalization and Yield Capitalization - are used to convert subject's income stream into value estimate. The key elements of these two methods, i.e., the estimates of market rent, vacancy allowance, and expenses, the discount rate, and the estimate of rent and expense increases, are adequately supported by available market data. More weight is accorded Yield Capitalization. Direct Capitalization focuses on the most important consideration of potential investors in the current market; i.e., the actual net operating income produced by a property at its current occupancy level. Yield Capitalization reliably measures the impact on value of the subject's current 53% occupancy and the future impact of the tenant's leases expirations. The Income Capitalization Approach reflects the process a potential investor would employ in evaluating the subject and, hence, is accorded significantly more weight than the Sales Comparison Approach in arriving at the subject's reconciled final value estimate.

**The Cost Approach** is likewise based on the principle of substitution; i.e., no prudent investor would pay more for a property than the cost to acquire the site and construct improvements of equal desirability and utility without undue delay. This approach was not considered appropriate to this appraisal for reasons set forth previously.

In summary, most weight is accorded the Income Capitalization Approach. After careful consideration of all pertinent, available information, our opinion of the **market value** of the leased fee interest in the subject, as is, as of November 17, 2010 is **\$42,750,000**.

**This market value estimate assumes an exposure period of six to nine months** and retention by subject's owner of a professional firm knowledgeable of the marketplace to market the subject property.

Reasonable exposure time is always presumed to precede the effective date of the appraisal. It differs from marketing time, which is presumed to follow the effective date of the appraisal. However, if no major changes have affected market conditions prior to or following the effective date of appraisal, marketing time may be useful in estimating exposure time. The third quarter 2010 Korpacz Company, Inc. "Real Estate Investor Survey" indicates an average marketing time in the Dallas office market of 6.80 months (with a range of three to 12 months), lower than reported both a quarter and a year ago.

Following the subsequent valuation of the excess tract of land, we will estimate subject's liquidation value.

## **Valuation of Subject's "Fenton Centre" Excess Land**

### **Site Valuation by the Sales Comparison Method**

This method of estimating market value was previously outlined in The Valuation Process section of this report. Available data sources were researched to identify sales and offerings of sites that are similar to the subject's "Fenton Centre" excess land site in terms of location, size and zoning.

The comparables presented subsequently are considered to be most relevant to the subject site's market value estimate. A map showing the location of the comparable land sales is presented subsequently.

# COMPARABLE LAND SALES — FENTON CENTRE'S EXCESS LAND

Comp No.	Location	D.O.S.	Size (Acre)	SP/SF	Zoning	Comments
1	Southwest corner of E. Las Colinas Boulevard and Teleport; also fronts north side of Rochelle Boulevard	10/10	4.70	\$9.77	Allows office, hotel	Site is located in the Las Colinas Urban Center. Reportedly, the land will be developed with a parking garage. Property was on the market 328 days. Located within the Dallas County Utility Reclamation District.
2	North corner of Longhorn Drive and Campus Circle Drive East, Irving	03/10	2.40	6.94	CO (Commercial Office)	Site has 425 feet of frontage on Campus Circle Drive and 245 feet on Longhorn Drive. The purchaser intends to construct a conference center on the site. Located within the Dallas County Utility Reclamation District.
3	Southwest side of Vista Ridge Mall Drive, 180' west of Denton Tap Road, Coppell	10/09	5.41	3.60	Commercial	Intended uses include office, retail and restaurant. Site is 256' deep by 958' along Vista Ridge Mall Drive.
4	Southwest corner of John W. Carpenter Freeway (SH 114) and Longhorn Drive	09/08	3.52	8.15	CO (Commercial Office)	Property has frontage on John Carpenter Freeway, Longhorn Drive and Campus Circle Drive. Buyer intends to hold for future development. The immediate area is developed with office uses. Located within the Dallas County Utility Reclamation District.
Sub.	Fenton Centre Tract's Excess Land/North side of LBJ Freeway, just west of Luna Road, Farmers Branch	-	4.70	-	PD 78	See Site Analysis.

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## Comparable Land Map – Fenton Centre





### Analysis of Comparable Data

The location of each relative to the subject is shown on the accompanying maps. Summaries of these comparables were shown on the preceding charts; complete details are contained in the Addenda.

Adjustments to the comparables are made for differences in their salient features. A general description of these salient features follows.

1. **Financing Terms** account for the impact on value that is produced by favorable financing. Adjustments are not required since all sales are based on a cash or cash equivalency basis.
2. **Conditions of Sale** adjustments reflect the motivations of the buyer and the seller.
3. **Market Conditions (time)** account for value changes in area properties between the date of the comparable sale and the effective date of this appraisal report. There has been a dearth of comparable land transactions due to the financial crisis and halt in lending. Financing is far more difficult to obtain now than before September, 2008. As a result, there are little data with which to extract measurements of change in market conditions.

A widely cited source of research on commercial property values is produced by Moody's Investor Service in its "Commercial Property Price Indices Report" ("CPPI"). Its October, 2010 research indicated the following:

Property Type	Index Change from . . .	
	1 Year Earlier	2 Years Earlier
National – All Property Types	-7.6%	-37.9%
South – Office	-5.6%	-36.6%

Overall, our comparison of the comparable sales transacted prior to September 2008 acknowledges "significantly superior" market conditions and we will adjust them downward by 35%.

4. **Zoning** adjustments are based upon the relative flexibility of a tract's allowable uses compared to the subject. All of the comparable sales have zoning designations which allow for office development. Hence, no adjustments for zoning are necessary.

5. **Size and shape** adjustments account for differences in a site's dimensions, street frontage, width and depth. Typically, market data suggest that the size of a tract (all other factors being equal) is inversely proportional to the sale price/unit of comparison, i.e., the larger the tract, the lower the sale price/unit of comparison, and vice versa. Simply, a larger tract with similar characteristics to a smaller tract will typically sell for less on a comparative unit basis.
6. **Corner influence** adjustments account for the impact on value that may be produced by properties with frontage on two or more streets.
7. **Plottage** adjustments measure the increment in value that results from assembling two or more parcels of land under single-ownership or control. If the combined parcels have a greater unit value than they did separately, plottage value results. Plottage value may also refer to the value of an existing site of abnormal size or special shape that has greater utility than average sites of more conventional, smaller size.
8. **Site improvements** adjustments account for the effect on value of improvements that exist on a site.
9. **Topography** adjustments account for differences in a site's contour, grades, natural drainage, soil conditions, view, and general physical usefulness.
10. **Utilities** adjustments account for the available and adequacy of public utilities and services.
11. **Location** adjustments account for the impact on value of time-distance relationships between a site and common origins and destinations. Forms of access to and from the property and traffic volume are considered in this analysis.
12. **Environment** adjustments measure the effects of any hazards or nuisances caused by neighboring properties.
13. **DCURD** (Dallas County Utility Reclamation District) adjustments measure the effect of the extraordinary tax burden impacting the subject tract due to DCURD taxes. Briefly summarized, the DCURD 2010 tax rate of \$2.05/\$100 of assessed value (the 2010 rate has not yet been set) is considered to have a negative impact on value. We have estimated the negative impact of location within DCURD via the following model.

Presently, DCURD offers an abatement of taxes on commercial improvements with a "cap" or limit of \$0.75/\$100 of assessed value. The abatement is for 20 years.

**Fenton Centre – Excess Land**

**Analysis of Data and Conclusions**

Assuming a 9% capitalization rate, the discount associated with an additional tax of 0.75% is equal to approximately 10% as is calculated below.

Hypothetical Value of Improvements	\$100,000
Additional Tax @ 0.75%	\$750
Capitalized at 9.00%	\$8,333
<b>Loss of Value</b>	<b>8.33%</b>

While the calculated value is 8.33%, assessed values are typically below market value and a purchaser would most likely round down. Subject is not located within DCURD; however, three of the land sales are (Nos. 1, 2 and 4). Hence, we have made a small upward adjustment to those comparables that are within DCURD and whose owners are liable for this additional tax.

Salient observations regarding each comparable tract were presented previously in the summary charts. A grid demonstrating the previously described adjustment process is presented below.

COMPARABLE SALE DATA				COMPARED TO SUBJECT, SALE IS . . . .		
No.	Size (Acres)	Date of Sale	SP/SF*	Location	Size	Subject's SP/SF should be.....
1	4.70	10/10	\$10.55	Sig. Superior	Similar	Significantly Lower
2	2.40	03/10	7.50	Slt. Superior	Similar	Slightly Lower
3	5.41	10/09	3.60	Inferior	Similar	Higher
4	3.52	09/08	5.72	Slt. Superior	Similar	Slightly Lower
<b>Sub.</b>	<b>4.70</b>					
*Nos. 1, 2 and 4 are adjusted upward by 8% to reflect being located in DCURD. No. 4 is also adjusted downward 35% for declining market conditions.						

Based upon the preceding, subject's land value/SF should be significantly lower than No. 1 (\$10.55/SF, adjusted); slightly lower than No. 2 (\$7.50/SF, adjusted) and No. 4 (\$5.72/SF, adjusted) and higher than No. 3 (\$3.60/SF). Considering the preceding, a market value of **\$5.00/SF**, is estimated for subject's "Fenton Centre" excess land site.

Based on this analysis, the fee simple market value for the subject's "Fenton Centre" excess land site as of November 17, 2010, is estimated as follows:

Site Area of Fenton Centre's Excess Land in SF	x	SP/SF	=	Indicated Value of Fenton Centre's Excess Land
204,732		\$5.00		<b>\$1,025,000 (Rd.)</b>

As discussed in the previous Highest and Best Use Analysis, Fenton Centre's "common area" land is not developable and has no material value.

## "Fenton Centre" Tract Summary

Having estimated market value for the Fenton Centre office buildings and the excess land, we will determine the "as is" market value of the "Fenton Centre" Tract, as of November 17, 2010, by simply adding the values together as shown below.

Fenton Centre Office Buildings – "As Is" Market Value	\$42,750,000
Plus: Estimated Market Value of 4.70-Acre Excess Land	+ 1,025,000
<b>"As Is" Market Value of Fenton Centre Tract (with full market exposure)</b>	<b>\$43,775,000</b>

## Liquidation Value – Fenton Centre Tract

The purpose of our appraisal is to form two opinions of liquidation value for each of the three subject properties. Per the client, we are to provide a liquidation value for each subject property, in its current state, assuming that consummation of a sale occurs within both a 30-day and a 90-day marketing period.

It is readily acknowledged in the marketplace that *"the obtainable price at a forced and semi-forced liquidation is typically below the market value of the property, often by a significant amount"*<sup>1</sup>. In today's constricted commercial real estate investment climate, brokers, investors, owners and appraisers appear to have two different approaches in estimating liquidation value. The first is of the opinion that, for the most part, "all sales in today's market are forced" and short 30-60-90 marketing periods are typical because prices are already so depressed or, are already marked down to a "liquidation price". Second, the more conventional method is to first estimate the property's "market value", assuming a "reasonable marketing period" and discount that value by a percentage for the "severely limited marketing period". Inasmuch as we have opined to a market value estimate assuming a reasonable marketing period, this second method is most appropriate for use herein.

Income producing properties typically have a lower liquidation discount than do unimproved, vacant tracts of land. Based upon the appraisers' experience, office properties similar to Fenton Centre would likely carry a 10-20% discount for a "severely limited marketing period". The vacant land would experience a significantly larger discount primarily due to the difficulty in financing, higher degree of speculation in resale and the lack of income during the marketing period. Furthermore, for these specific subjects, each competes with literally hundreds of vacant acres in the immediate market area – Mercer Crossing. Given the significant amount of competitive sites, discounts for a quick sale could be extreme. The approximate discount is therefore likely in the 20%-40% range, at this time, on the vacant land.

<sup>1</sup> Mark J. Derbes, Jr. MAI and Max J. Derbes, III, "Liquidation Price and Semi-Forced Sellers", The Appraisal Journal, January, 2001; Pages 31-37.

**Fenton Centre – Excess Land**

**Analysis of Data and Conclusions**

Based upon the preceding, the liquidation discount on the Fenton Centre office building is estimated at 15% for a 30-day marketing period and 10% for a 90-day marketing period. In addition, we estimate a 30% liquidation discount on Fenton Centre's excess land for a 30-day marketing period; 20% for a 90-day marketing period. Thus, the estimated liquidation values for subject's Fenton Centre subject property are calculated as follows:

<b>Fenton Centre Subject Property Component</b>	<b>As Is Market Value</b>	<b>30-Day Marketing Period Discount %</b>	<b>Amount of Dis- count (\$) (Rounded)</b>	<b>Liquidation Value, As Is, with 30-Day Mar- keting Period</b>
Office Buildings	\$42,750,000	15%	\$6,415,000	\$36,335,000
Excess Land	1,025,000	30%	310,000	+ 715,000
<b>Total Liquidation Value with 30-Day Marketing Period</b>				<b>\$37,050,000</b>

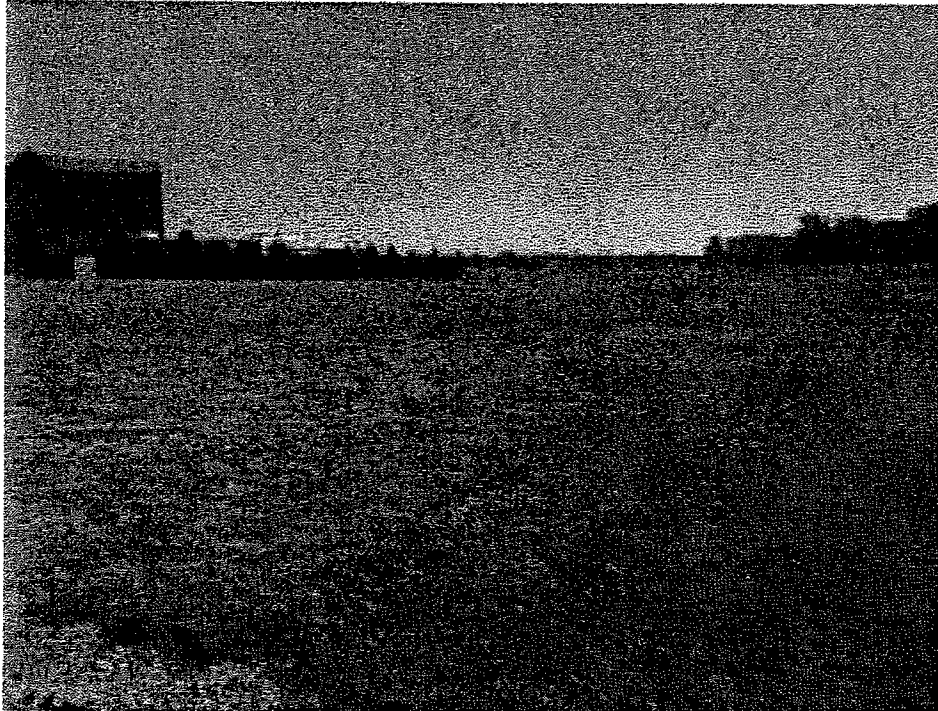
Based upon the preceding, we conclude that the **liquidation value** opinion, **assuming a 30-day marketing period**, of the Fenton Centre subject property as is, is **\$37,050,000**.

<b>Fenton Centre Subject Property Component</b>	<b>As Is Market Value</b>	<b>90-Day Marketing Period Discount %</b>	<b>Amount of Dis- count (\$) (Rounded)</b>	<b>Liquidation Value, As Is, with 90-Day Mar- keting Period</b>
Office Buildings	\$42,750,000	10%	\$4,275,000	\$38,475,000
Excess Land	1,025,000	20%	205,000	+ 820,000
<b>Total Liquidation Value with 30-Day Marketing Period</b>				<b>\$39,295,000</b>

Based upon the preceding, we conclude that the **liquidation value** opinion, **assuming a 90-day marketing period**, of the Fenton Centre subject property as is, is **\$39,295,000**.

## **VALUATION OF SUBJECT'S 1700 VALLEY VIEW LANE PROPERTY**

Subject's 1700 Valley View Lane property is a 6.638-acre vacant parcel of land located along the south side of Valley View Lane, 308 feet east of Luna Road in Farmers Branch, Dallas County, Texas.

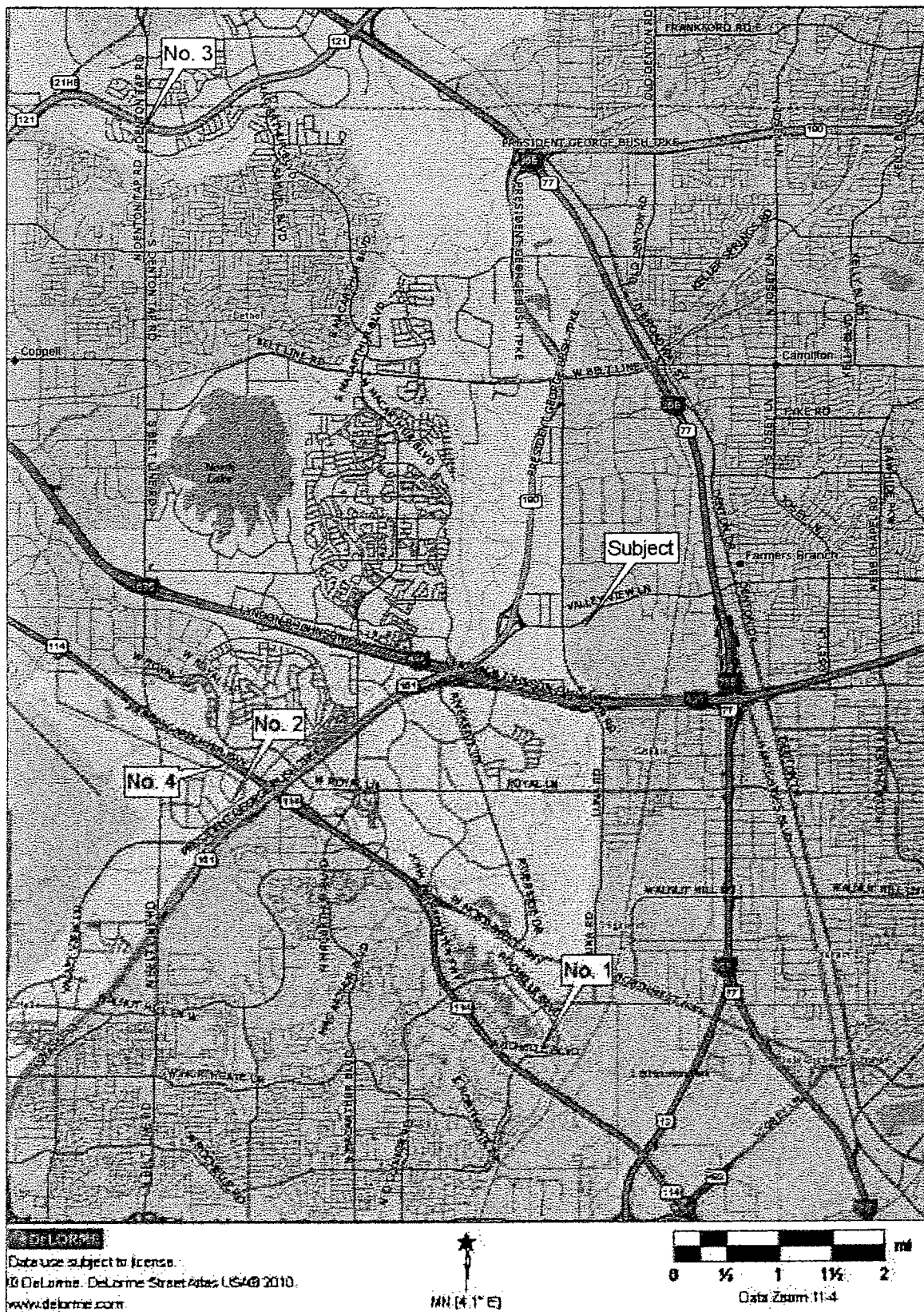


In order to form an opinion of value for this subject property, we will utilize our value estimate/SF for subject's Fenton Centre excess land tract found previously in our report. We estimated a value of \$5.00/SF for Fenton Centre's excess land, a 4.70-acre tract of land located on the south side of LBJ Freeway, just west of Luna Road. Subject's 1700 Valley View Lane tract of land is located approximately one-half mile northeast from subject's Fenton Centre's excess land.

Subject's 1700 Valley View Lane tract is similar to subject's Fenton Centre's excess land in terms of size and zoning (both generally allow office and retail development). However, the 1700 Valley View Lane tract is considered inferior to the "Fenton Centre excess land" tract given that it is not located on a major freeway. Thus, the value/SF of subject's 1700 Valley View Lane tract should be slightly lower than subject's "Fenton Centre excess land" market value of \$5.00/SF.

Considering the preceding, a market value of **\$4.00/SF** is estimated for subject's vacant 1700 Valley View Lane site.

## Comparable Land Map: 1700 Valley View



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Based on this analysis, the fee simple market value for the subject's 1700 Valley View Lane site as of November 17, 2010, is estimated as follows:

Site Area of 1700 Valley View in SF	x	SP/SF	=	Indicated Value of "1700 Valley View" Tract
289,139		\$4.00		<b>\$1,025,000 (Rd.)</b>

Based upon the preceding liquidation discount discussion, we estimate a 30% liquidation discount on the 1700 Valley View Lane tract for a 30-day marketing period; 20% for a 90-day marketing period. Thus, the estimated liquidation values for subject's 1700 Valley View Lane subject property is calculated as follows:

Subject Property	Market Value	30-Day Marketing Period Discount %	Amount of Discount (\$) (Rounded)	Liquidation Value, As Is, with 30-Day Marketing Period
1700 Valley View Lane	\$1,025,000	30%	\$310,000	\$715,000

Based upon the preceding, we conclude that the **liquidation value** opinion, **assuming a 30-day marketing period**, of the 1700 Valley View Lane subject property is **\$715,000**.

Subject Property	Market Value	90-Day Marketing Period Discount %	Amount of Discount (\$) (Rounded)	Liquidation Value, As Is, with 90-Day Marketing Period
1700 Valley View Lane	\$1,025,000	20%	\$205,000	\$820,000

Based upon the preceding, we conclude that the **liquidation value** opinion, **assuming a 90-day marketing period**, of the 1700 Valley View Lane subject property is **\$820,000**.